

ENERGY - LATVIA

I. Consumption of Energy Resources in Latvia (ktoe) *

	1998	1999	2000
Natural Gas	1046	1047	1140
Light oil products	890	934	905
Heavy fuel oil	760	630	284
Firewood, peat, coke and other types of fuel	1015	910	910
Coal	103	84,1	66
Electric power (HPS and imported from abroad)	417	406	396
Energy Consumption – total	4231	4011	3702

* ktoe - thousand tons of oil equivalent

II. Evaluation of Sector -- Electrical Power Systems, Oil and Gas field Machinery and Services and Renewable Energy Equipment

A) On a scale of 1 (low) to 5 (high), evaluate the priority given by the host government to energy development: 4

B) On a scale of 1 (low) to 5 (high), evaluate country's receptivity to U.S. products & services: 3

C) On a scale of 1 (low) to 5 (high), evaluate competition for U.S. exporters from local domestic suppliers: 1

D) On a scale of 1 (low) to 5 (high), evaluate competition for U.S. exporters from third-country suppliers: 5

E) On a scale of 1 (low) to 5 (high), evaluate overall effect of trade barriers on U.S. exports of products and services: 2

III. Narrative Information

Latvia is heavily dependent on fuel imports. 100 per cent of gas and oil and oil products are imported, while electricity imports vary depending on fluctuations in precipitation that drives the Hydropower stations and can reach up to 50 per cent of total consumption. Therefore the Energy Sector is not only one of the most important and also a politically sensitive sector in Latvia.

Main external supplier of energy resources is Russia. Russia supplies 100 per cent of gas and most of oil and oil products to Latvia. While natural gas supply, pipelines and depots' facilities are being fully controlled by, formerly state owned, now privatized Latvijas

Gaze, the oil and oil products market is fully liberalized and has many strong local and foreign market participants. Statoil, Shell, Neste, Lukoil and Hydro/Texaco are well-known international brand names in Latvia's petrol retail and wholesale market. BP/Amoco and Esso have limited presence and represented by local distributors only in lubricants' market.

The largest part of the energy sector is under the control of monopoly companies, such as privatized Latvijas Gaze (Latvian Gas) and the state owned Latvenergo (Electrical Power energy). In terms of their asset value, turnover and profits, these companies are ranked among the top 10 in Latvia. Both these monopolists were state owned and were engaged in privatization process. Latvijas Gaze privatization is almost completed with few per cent of shares remaining in state hands, however these assets state plans to sell out. In turn, parliament took Latvenergo off the privatization list in summer 2000 after the respective referendum.

At the end of year 1999, the Latvian government has identified the following development problems in the energy sector:

- energy legislation needs to be streamlined;
- energy deliveries need to be more reliable;
- privatization and restructuring of energy companies needs to be completed;
- And energy efficiency must be increased.

The above issues are important because of the necessity for Latvia to harmonize regulatory documents with EU directives, in preparation for Latvia's EU accession. The National Program of Energy and the Law on Energy is the response to these needs. Projects in energy sector are supported by the Public Investment Program.

State priorities are:

- to increase the independence in energy suppliers from the external sources. The target is to increase the share of local energy resources (excluding hydropower) like wood, peat and renewables up to 10 per cent in the overall consumption.
- Construction of new environment friendly power plants
- Increase of energy efficiency and saving
- Installation of co-generation equipment.

Within the National Program of Development of Energy Sector, there was made a legal base for the establishment of State Energy Inspection and also done a work for participation in the European Union's energy efficiency program SAVE. Altogether 37 projects in energy sector received state funding from the Public Investment Program in 2000, utilizing LVL 28.8 million or 88 per cent of total provided.

The Law on Energy includes the implementation strategy of the energy policy, which is detailed in the National Program of Energy accepted by the Cabinet of Ministers on September 9, 1997. The Program was under development for 15 years and is updated every five years. The law "On Energy" (accepted by the Parliament on September 3,

1998) incorporates the main provisions of the EU directives and constitutes the base for future work in this area.

Currently, legislation is being drafted in two directions:

- harmonization of laws and regulatory documents with the requirements of the European Union. For year 2000 they are: oil and oil product stocks, reliability of supply, energy efficiency and introduction of energy market principles
- Drafting of new laws and regulations in compliance with requirements of external and internal markets and development of power supply services.

Regulatory body intervention shows that competition practices in the energy sector of Latvia are still not fully compliant with free market principles. In 2000 the Government of Latvia has abolished the telecommunications regulatory council and combined energy, telecom, and other regulation under one "super-regulator".

Electrical Power Generation and Transmission Equipment (ELP)

Latvian power generating companies provide most of needed electricity. The shortages are covered by imports from Russia, Estonia and Lithuania. In 2000 Latvia generated locally 70 per cent of locally consumed electrical power. Level of power production varies depending upon two factors: consumption and precipitation.

Actual power consumption constantly decreases. The reason for this during last 2-3 years can be found in implementing new- less power consuming and power saving technologies.

Currently the largest electricity consumer groups are: industry 34%, private residents - 23%, other consumers 43%. Under the impact of the Russian crisis the electricity consumption structure has changed too. Electrical energy consumption by industrial companies has dropped by 16.7%, in agriculture by 15.7%, however there was an increase of consumption from other groups of consumers by 9.6% and by residents - 5.6%. Such a drop may influence reconstruction plans of electrical power systems.

The largest power generating company is vertically integrated state owned electricity monopoly, Latvenergo (66.8% of total country electricity consumption) and many small electrical power generators in Latvia. 2.6 per cent of electricity was generated in combined heat power plants belonging to industrial companies. The latest information from the Latvian Ministry of Economy accounts for 67 small HPS (Hydro Power Stations) in Latvia. Their share is insignificant in the overall power generation in Latvia.

Electricity Supply in Latvia * (billion kWh)

Components of electricity supply	1998	1999	2000 **
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Total electricity	6.328	6.065	5.922
Generation – total	5.796	4.110	4.136
of which:			
Hydro Power Stations (HPS)	4.302	2.744	2.799
Combined Heat Power	1.348	1.222	1.163
Block stations and other equipment	0.131	0.128	0.150
Small HPS	0.014	0.014	0.020
Wind generators	0.0018	0.002	0.004
Import	0.530	1.955	1.786

* - Source: State JSC Latvenergo and Ministry of Economy

** - Source: Central Statistical Bureau energy and distribution balance for 2000

Since the mid -90's Latvenergo was being prepared for privatization. However, no privatization scenario had been approved and implemented. In spring 2000 the trade union "Energy" which was opposing the privatization of the company, proposed that it must remain in state hands until a referendum on its fate could be held. The trade union succeeded in the referendum and stopped the privatization process of the company for a long time. The public supported the case because of bad public relations management on the part of the government and a feeling that the privatization process itself was highly non-transparent. It is believed that before the parliament elections in 2002 the question about the privatization will not be raised again.

Several investment projects in the energy sector in progress. International companies play a significant role in these projects. In 2001 there was completed the reconstruction of Kegums HPS (Hydro Power Station) that was financially supported by the EBRD. The Riga City Center Network and power grid in Riga Old Town was completely modernized in 1999.

The historical power grid of 330kV dates from 1960 and covers all three Baltic countries, as well as, Belarus and Northwest Russia. After regaining independence in 1992, the Baltic IPS (Interconnection of the Power Systems) was set up as a power pool in order to co-ordinate operations of electric power supply in the Baltics. The operations dispatch management of the Baltic IPS is carried out by the Baltic Power Systems regional Control Center - DC Baltija - in Riga. This is within the framework of a multilateral agreement on the parallel operation of Baltic country power systems.

Total installed capacity of the Baltic IPS was 11,743.3 MW on 01.01.98. It includes a wide range of types of equipment - a nuclear plant (in Lithuania), Hydro power plants, Co-generation plants, condensation power plants and wind power generators. The basic network forming the Baltic IPS consists of 57 high voltage power transmission lines of 330kV and 31 switch-yards equipped with 77 autotransformers and transformers and other related equipment. The power distribution network of Baltic IPS consists primarily of 110 kV lines, with the only exception being the Estonian power system, which is a 220kV network.

Oil & Gas Industry and Equipment Market

Natural gas makes up 28% of the Latvian energy resources. Government forecasts that the share of gas, as one of the ecologically cleanest types of fuel, in the total energy consumption of Latvia will increase in near future. It estimates gas consumption by year 2005 to reach 2 billion m³ a year. In the same time frame, consumption of heavy fuel oil will go down. The Riga region accounts for 82% of the total natural gas consumption in Latvia. Natural gas is not used at all in Latgale region with the exception of Daugavpils City and Preiļi region.

The biggest gas storage site in the Baltics (the third biggest in Europe) is located near Incukalns in Latvia. This facility belongs to "Latvijas Gaze", a partially privatized gas supply operator in Latvia. Its active gas capacity is estimated to be only 1.855 billion m³ (and 2.15 billion m³ of buffer gas). Although it is sufficient to cover gas storage needs for all three Baltic countries and Pskov region of Russia, Latvijas Gaze actively explores new, potential sites for similar gas storage facility development in Latvia. They plan to double the active gas storage capacity in Latvia. To guarantee stable deliveries of gas in the Baltic States region Incukalns gas storage site capacity should be enlarged to 6.2 billion m³ (at an approximate costs of 52 million USD). Currently Latvijas Gaze has started the first phase during which the capacity of Incukalns gas storage will be increased by 1 billion cubic meters.

Latvijas Gaze offers a full range of services related to gas distribution. Its main activities cover acquisition, storage, transportation and distribution of natural and liquid gas. The company's main profit comes from natural gas distribution to industrial consumers. The major gas supplier for Latvijas Gaze is the Russian Company "Gazprom", the second supplier is Itera which also is the main shareholder of Latvijas Gaze. Other shareholders are Gazprom, and German Ruhrgas and E.ON Energie. Gas is supplied during the summer season via pipeline from Russia. Latvijas Gaze has also announced its interest in participating in the gas pipeline project connecting Estonia and Finland.

Oil products are used both as heating fuel and fuel liquid. In the oil products market prices are fully liberalized and competitive compared to other types of fuel. Oil products account for 35-41% (including heavy fuel oil – 15%) of the total energy resource market in Latvia. The main consumers in the heavy oil market are heat generation 70%, industry 20%, transport 10%.

Due to a favorable geographical location and historical links Latvia plays a very important role in the oil and oil products transportation business from Russia. Taking into account the orientation of big ports towards reloading of transit cargo - more than half of total cargo structure consists of oil and oil products. In the first nine months of 1999 that amounted to 38.3 million tons.

The biggest oil export terminal is located in Ventspils. It handles around 70% of total cargo reloaded in Latvian ports and 12-14% of total Russia's oil export. Oil is delivered to port by two pipelines and by rail. The largest crude oil and petroleum products trans-shipment terminal in the Baltic countries is "Ventspils Nafta", which was recently privatized. Currently the Ventspils seaport experiences strong competition in the Russian oil transport spheres due to beginning operations at Butinge oil export terminal in Lithuania and to political and economic pressure from the Russian companies and government. The future of Ventspils oil terminal doesn't look bright due to recently opened Primorsk terminal near St. Petersburg (Russia) and Russia's market protectionism and subsidies' policy.

Latvia has some off-shore oil fields which need to be explored. However, no new exploration is in the offing even though the border dispute with Lithuania is solved. Experts assess the stock of the off-shore oil at around 220 million barrels in Latvia's waters. Besides there is also found an evidence of oil on shore Latvia.

Solid Fuel

Both – the imported from CIS and Poland (coal) and local fuel (peat and firewood) are used. The consumption forecast of firewood depends on the extent to which regions will manage to change from the extensive to rational use of firewood. The most optimistic experts value that the share of wood will increase up to level of 25-30 per cent. Current customers base of firewood are: households (mainly rural areas and towns) ~ 60 per cent, heat generation companies ~ 25 per cent, industry and others ~15 per cent.

There is no expected increase in peat consumption till 2005. Use of peat is concentrated around its production and processing sites.

Renewable Energy Equipment

To become more independent from the electricity supply from outside and meet local needs, the Latvian government supports private initiatives for construction and commercial activity of small-scale hydropower, wind generators and co-generation equipment. According to the law, electrical power produced by small HPS generators has to be purchased by double tariffs. This request currently is strongly opposed by Latvenergo, which is set to be the purchaser of the power generated by small generators. This problem could be minimized if the purchasing role were transferred to DC Baltija as a power distribution center as has been suggested. The Public Investment Program for the development of energy sector (1999) includes 25 projects with a total cost of LVL 21.2 million (USD 39 million).

IV. Major Procurements of Private Projects on the Horizon

Latvia has the following projects of reconstruction and modernization for year 2000 in the electrical power energy sector:

- reconstruction of the Riga TEC-1 (Co-generation plant- CHP)
- reconstruction of the Liepajas Siltum CHP (Co-generation plant- CHP)
- install a 110 kV electrical power line circuit around Ventspils city;
- install reactive power compensation reactors in Rezekne sub-station;
- upgrade the DC Baltija transmission control center;
- modernize heat power plants outside Riga.

V. Major Trade Events/Fairs

7th International Exhibition for Electrical Engineering, Energy Supply and Equipment
ENERGETIKA 2002
(ENERGY 2002)
 05/08-05/10

VI. Country's Method of Procurement.

Government tender notices have to be publicized in "Latvijas Vestnesis", the official Latvian government newspaper. Bodies governed by public law must procure goods and services in a businesslike, competitive and non-discriminatory way.

VII. Means of Financing Procurements.

Most of procurement is self-financed, and some are financed through the state financially supported Public Investment programs and international aid programs.

There are available US Export-Import Bank's credits for the US exporters.

The Energy Efficiency Fund, which began in 1998, provides loans to smaller plants, basically for replacement of present equipment with more efficient equipment. The allowable debt part of financing for such projects varies from LVL 5,000 (approximately USD 8500) to LVL 200 000 (app. USD 340 000).

VIII. Points of Contact

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